



Attachment B



Enterprise Transition Management

Deliverable 6.1 – Conceptual Organization Design

Deliverable 6.1 – Conceptual Organization Design

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1. Introduction

Deliverable 6.1 – Conceptual Organization Design provides the high-level design for the new CalPERS organization based on the organization adjustments necessary to support PSR, leading practices in other organizations, and changes needed to prepare CalPERS for its future goals. Deliverable 6.1 – Conceptual Organization Design includes:

- Organization Design Guiding Principles – the Organization Design principles for the change to the organization by considering people, process, technology, structure and culture
- Operating Model – a “big picture” view of the organization
- High-level Organization Structure – the proposed future organization structure of the top 3 levels of CalPERS (Chief Executive Officer, Deputy Executive Officer, and Assistant Executive Officer)
- Roles & Responsibilities, including Core Capabilities – the new high-level roles’ and responsibilities in the proposed organization
- Stakeholder Identification – the stakeholders for this Deliverable, who participated in the development of the Guiding Principles, Operating Model and review of a Conceptual Organization Design for CalPERS

1.1. Purpose

The purpose of this document is to outline the foundation for the new Organization Design given the changes PSR will require. Additionally, the ETM team worked with the executives to determine whether the timing is right to make additional organization changes given CalPERS' future strategies and objectives.

The following information and activities served as inputs to the development of this deliverable:

- PSR – FA301 Concept of Operations
- ETM Current State Assessment
- CalPERS organization analysis and demographic data
- Executive interviews
- External leading practices

The deliverable will be used to develop the following downstream deliverables:

ETM Work Stream	Deliverable
Organization Development	Deliverable 6.3 – Detailed Organization Design Note: Deliverable 6.2 – Detailed Organization Design– Ready for Stakeholders has been combined into 6.3
Training	5.1 – Employee Skills Taxonomy 5.3 – Employee Skills Inventory 7.2.2 – Training Readiness 8.1.2 – Baseline Training Plan 8.1.3 – Training Curriculum
Communications	2.2.3 – Communication Materials
Transition Management	2.6.2 – Transition Management Preliminary Plan 2.6.3 – Transition Management Detailed Plan

1.2. Scope

This Deliverable includes the high-level Organization Design for the entire organization, which was approved by the CalPERS Executive Leadership Team. An integral part of the development of the Organization Design included the identification of CalPERS OD Guiding Principles, an Operating Model, and the High-level Organization Structure.

1.2.1. Not Included in Scope

This Deliverable does not include any development of Organization Design specific to a particular Branch or Division. It includes design at the highest levels of CalPERS: the CEO, DEOs, and AEOs only.

1.3. Approach

The approach used to develop the Conceptual Organization Design includes research and analysis of the following:

- Business/PSR Drivers
 - CalPERS strategy, vision, business plan documents
 - PSR – Concept of Operations and high level processes
 - Executive interviews
 - External leading practices
- Current Organization
 - ETM Current State Assessment
 - Organization structure analysis
 - Workforce demographic analysis
 - Talent management processes

The analysis of the content listed above was used to identify the following components of the Conceptual Organization Design:

- Guiding Principles
- Operating Model
- High-level Organization Design, which is the framework of the Conceptual Organization

The Guiding Principles, Operating Model, and High-level Organization Design are described in further detail in sections 2, 3, and 4 of this document.

1.4. Terms and Definitions

Terms used throughout this deliverable are defined in the Glossary in the Appendix.

1.5. Referenced Documents

The following documents are referenced in this deliverable:

- N/A

2. Guiding Principles

Guiding Principles are foundational criteria that help drive the Organization Design, they are “touchstones”. Guiding Principles are used to help design:

- Overall organizational unit structure (e.g., Branch, Division)
- Organization/work environment characteristics (e.g., span of control, level of specialization, authority/responsibility, management layers)
- Career ladders and how roles link to the broader structure

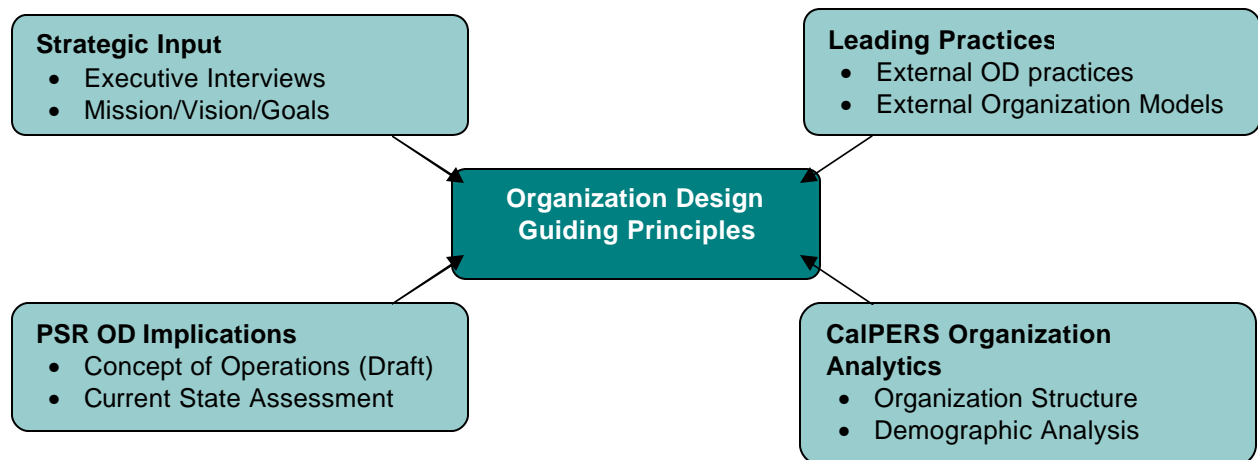
The ETM team relied on and referred to the Guiding Principles as it developed the Conceptual Organization Design.

2.1. Methodology

The initial set of Guiding Principles for CalPERS was derived to reflect findings from the following areas:

- Analysis of CalPERS' current state, including employee demographics and the ETM Current State Assessment documentation
- Review of appropriate PSR documentation
- Input from CalPERS executives
- Consideration of external leading practices
- Results of Executive Guiding Principles Workbook

The illustration below demonstrates the inputs used to develop the original list of 14 Guiding Principles:



2.2. Current State Analysis

The ETM team reviewed the Concept of Operations developed by PSR and derived the following PSR-specific Organization Design implications:

Key business changes from PSR	Implications
<ul style="list-style-type: none"> Self-service in a virtual environment (Customer Service Tier 0 – 66%, Tier 1 – 28%, Tier 2 – 5%, Tier 3 – 1%) 	<ul style="list-style-type: none"> Upgrade talent/skill within the organization Shift in staffing away from transactional roles to analytic and problem-solving roles
<ul style="list-style-type: none"> Corporate view of customer data 	<ul style="list-style-type: none"> Create a OD mechanism to deliver customer satisfaction measurements and accountability, executive responsibility for customer service, dedicated customer group, and/or consistent “one-stop” information
<ul style="list-style-type: none"> Information sharing and process integration with external partners 	<ul style="list-style-type: none"> Develop mechanism across the organization for information sharing Define external partners – defined relationship manager roles (e.g., partner manager)
<ul style="list-style-type: none"> Consolidate, standardize, and streamline processes and systems 	<ul style="list-style-type: none"> Re-define roles and responsibilities to EXCLUDE re-work, multiple touches, manual touches
<ul style="list-style-type: none"> Proactive customer relationship management 	<ul style="list-style-type: none"> Design roles to focus specifically on relationship management

The implications above were considered in the development of the Guiding Principles, Operating Model, and the High-level Organization Structure.

2.2.1. Organizational Assessment of the Current State Assessment Document

In the analysis of the Current State Assessment document, the ETM team derived sets of strengths and concerns to consider through the development of the Organization Design.

Strengths:

- Most Divisions have the opportunity to provide input and feedback on their Division/Branch's needs in regards to the PSR implementation

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- Many Divisions are looking forward to, are eager for, and committed to supporting the PSR project
- Many Division representatives expressed enthusiasm for PSR and the promise of improved customer service, increased efficiency, and enhanced functionality
- CalPERS staff has previously experienced information technology initiatives
- Divisions are looking to the PSR team for a sincere and structured effort to engage users, deliver a system that reflects their needs, and provide post-implementation support

Concerns:

- There are high expectations that PSR functionality will meet users' needs
- Divisions are feeling the strain of staff assigned to multiple projects
- Potential impact to Benefit and Retirement Program Specialist classifications (BPS and RPS) is high
 - Divisions with large numbers of Benefit Program Specialist(BPS) and Retirement Program Specialist (RPS) staff may face significant changes if PSR impacts the business processes and functions they perform
- New skill requirements created by the PSR business model may require CalPERS to reevaluate employee classifications
- One-quarter of CalPERS staff will be eligible for retirement in the next five years
 - As of June 2006, 26% of staff are either in the retirement age group or will enter that group during the PSR implementation. In the past three fiscal years, retirements from CalPERS have remained fairly constant at 27 to 33 people per year

Based on some key issues identified above from the Current State Assessment, the ETM team derived the following OD implications:

- The Organization Design should allow for the formulation of relationships with individual clients
- Define a transition plan and timeline for migrating staff to future roles, based on projected demand and employee readiness
- Develop Organization Design Transition Plan with projection scenarios that incorporate future retirements and turnover
- Ensure that the Organization Design accounts for current and future projects
- Organization Design should clearly define roles and responsibilities, allowing for transition around "Go Live" date

2.2.2. Organization Chart Analysis

The ETM team conducted organization chart analysis to better understand the shape of the current organization. The analytics were extracted from current CalPERS organization charts. The two sets of analysis include Organization Levels and Span of Control.

Organization levels measure how many distinct reporting layers are within CalPERS below Division Chief level. This metric measures the complexity of CalPERS' reporting structure.

Span of control measures the number of headcount staff supported by each supervisor. This metric provides insight into organizational structure and can later help determine appropriate supervisor to employee ratios.

The following table lists the maximum organization levels, the average span on control, and its implications for the seven CalPERS branches:

Branches	Maximum Organization Levels	Average Span of Control	Implications
Actuarial and Employer Services Branch	5	5.17	May need to increase span of control for highly transaction oriented Branches and Divisions
Administrative Services Branch	6	5.40	
Health Benefits Branch	6	4.84	
Investment Office	4	4.33	
Member and Benefit Services Branch	5	7.23	May need to decrease span of control in Branches that are highly strategic in nature
Office of Audit Services/ Office of Enterprise Compliance	3	6.05	
Office of Public Affairs	4	5.14	

2.2.3. Demographic Analysis

The ETM team conducted demographic analysis at the Branch level to assess the make up of CalPERS workforce.

The key findings from the analysis:

- 32% of CalPERS population is eligible to retire (= 50 Years)

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- Branches with highest percentage of staff currently eligible for retirement:
 - Health Benefits Branch (39%)
 - Legal and CalPERS General Counsel (38%)
 - ITSB (36%)
- Three largest Branches make up 66% of the Enterprise workforce with corresponding percentage of the staff eligible to retire:

Branch	% of total CalPERS Workforce	% Eligible to retire
Member and Benefit Services Branch	26%	28%
ITSB	24%	36%
Administrative Services Branch	16%	33%

- Average tenure of staff in the high risk branches:
 - Health Benefits Branch – 15 Years
 - Legal and CalPERS General Counsel – 13 Years
 - ITSB – 15 years

2.2.4. Executive Interviews

In order to learn the future plans and goals for CalPERS, the ETM team conducted interviews with all of the CalPERS executives. The table below lists all the interviewed executives with their titles:

Executive	Title
Gloria Moore Andrews	Deputy Executive Officer – Operations
Jarvio A. Grevious	Deputy Executive Officer – Benefits Administration
Gregory A. Franklin	Assistant Executive Officer – Health Benefits
Kathie Vaughn	Assistant Executive Officer – Member & Benefit Services Branch
John Hiber	Assistant Executive Officer – Administrative Services
Patricia K. Macht	Assistant Executive Officer – Public Affairs
Kenneth W. Marzion	Assistant Executive Officer – Actuarial & Employer Services
Teri Bennett	Assistant Executive Officer – Information Technology Services
Peter H. Mixon	General Counsel
Ron Seeling	Chief Actuary
Anne Stausboll	Chief Operating Investment Officer
Ruthe Ashley	Diversity Officer, External Affairs
Wendy Notsinneh	Division Chief, Office of Governmental Affairs

All executive were asked the same set of questions regarding the future direction of CalPERS.

The key themes that emerged from the interviews are listed below with the corresponding Organization Design implications:

Key Themes	Implications
Role of Executives/Governance <ul style="list-style-type: none"> Executives are committed to PSR/ETM success Decision-making process is unclear, ineffective Need to build a strong and effective governance process at executive 	<ul style="list-style-type: none"> Organization Design should include structured governance processes and roles. Governance design should include a decision-making and prioritization approach

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Key Themes	Implications
level, used across all business lines to prioritize initiatives, focus resources, and govern PSR and business	<ul style="list-style-type: none"> Need to capitalize on strong executive support in PSR/ETM design and implementation
Business Strategy/Vision and PSR Goals <ul style="list-style-type: none"> Key business objectives are customer service, healthcare costs, investment performance, implementing PSR, and clarifying the vision Main goal of PSR (and ETM) is to support improved customer service and process efficiency, including seamless customer interaction, self-service, accuracy, and security PSR is important to enable vision of integrated financial services provider, through enhanced and flexible operations and technology Need to clarify what PSR will and will not do Need to get more customer input and flesh out vision as a framework for future direction 	<ul style="list-style-type: none"> Organizational structure must support outstanding customer service: integrated, accurate, efficient, and secure Other business objectives (outside PSR) may influence Organization Design, e.g., future vision, more proactive external marketing Ongoing clarification/communication needed to understand PSR's impact on future organization and readiness Clarifying vision would benefit business planning and prioritization, as well as PSR/ETM
Change Readiness of CalPERS <ul style="list-style-type: none"> Staff at CalPERS are fairly receptive to change, with acceptance driven by how clearly leaders articulate direction and desired results Most favor open and early communication of change, with sensitivity to avoiding rumors Emphasize that no one will be disadvantaged by this change, no one loses their job CalPERS needs to understand its resources and/or limitations in order to set appropriate expectations 	<ul style="list-style-type: none"> Need to prepare leaders to articulate change in specific and clear messages/next steps Communication strategy should be proactive, open and frequent, with sensitivity to appropriate timing to reduce rumors Organization Design should ensure transitions and roles to accommodate all staff Methods for organizational prioritization (see Implications of Roles of Executives/Governance)

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Key Themes	Implications
Guidance for Organizational Structure <ul style="list-style-type: none"> • Waiting for further information before forming strong views • Interest in “blended” structure where certain functions might be centralized, others not • Desire to increase staff empowerment and reduce bureaucracy and silo’s • Must be an attractive employer, with desirable roles and opportunities, to attract future talent • Division Chief role works well, handling important responsibility in role and in BOC 	<ul style="list-style-type: none"> • Need for more information and dialogue before developing Organization Design solutions • Organization Design must be responsive to retention and recruiting of high performing staff • Design of leadership roles should address appropriate level of responsibility, staff empowerment, and cross-functional collaboration

2.2.5. Recommended Guiding Principles

The list below was the first iteration of Organization Design Guiding Principles provided to the CalPERS executives by the ETM team. These Guiding Principles were compiled based on what the ETM team heard in the executive interviews was important for CalPERS’ future, what the ETM team learned through its analysis of CalPERS current organization, and leading OD practices in external organizations.

- A. High value customer service experience
- B. Integrated ease of doing business for customers
- C. Accurate, reliable, responsive customer service
- D. Balance and flexibility in level of centralization
- E. Defined governance process for decisions and priorities
- F. Process-focused organization structure
- G. Nimble, change ready organization structure
- H. Revenue growth with less proportionate cost
- I. Collaborative, knowledge sharing work environment
- J. Empowered employees
- K. Accountability, analytics, and performance management
- L. Proactive engagement with external stakeholders
- M. Proactive external marketing and branding

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N. Customer-focused organization structure

2.2.6. Guiding Principles Workbook Exercise

The initial list of Guiding Principles above was presented and distributed to the executives. The executives were asked to complete the workbook with two exercises: the \$100 Importance Rating and the Continuum Rating.

The purpose of the \$100 Importance Rating exercise was to prioritize the Guiding Principles and assess the importance of each Guiding Principle. The executives were provided a \$100 budget to disperse across the Guiding Principles that they felt were most important to the success of CalPERS over the next four to five years.

The analysis resulted in the allocation of a \$990 in budget from the executives.

In the following table, the Guiding Principles are ranked based on the highest investments:

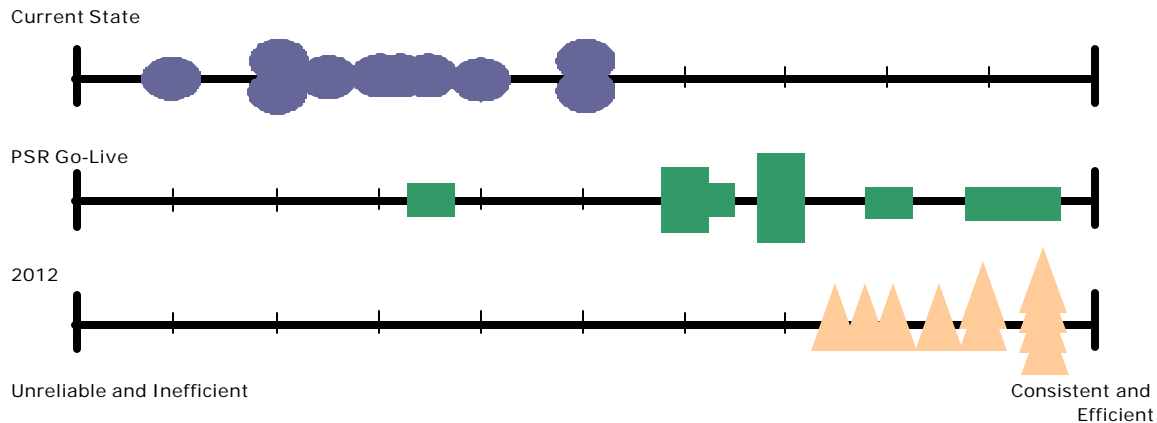
Principles	Investment	
A. Accurate, reliable, responsive customer service	\$220	22%
E. Defined governance process for decisions and priorities	\$135	14%
B. Integrated ease of doing business for customers	\$85	9%
K. Accountability, analytics, and performance management	\$85	9%
A. High value customer service experience	\$75	7%
F. Process-focused organization structure	\$65	7%
D. Balance and flexibility in level of centralization	\$60	6%
G. Nimble, change ready organization structure	\$50	5%
I. Collaborative, knowledge sharing work environment	\$50	5%
M. Proactive external marketing and branding	\$50	5%
N. Customer-focused organization structure	\$50	5%
J. Empowered employees	\$25	3%
L. Proactive engagement with external stakeholders	\$25	3%
H. Revenue growth with less proportionate cost	\$20	2%

In the Continuum Rating exercise, for each Guiding Principle CalPERS executives were asked to indicate on a continuum where they believe CalPERS is in the current state,

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where it should be at PSR Go-Live, and where CalPERS should be in 2012. The following four charts show the executive alignment on the four Guiding Principles which rated the highest in the importance rating:

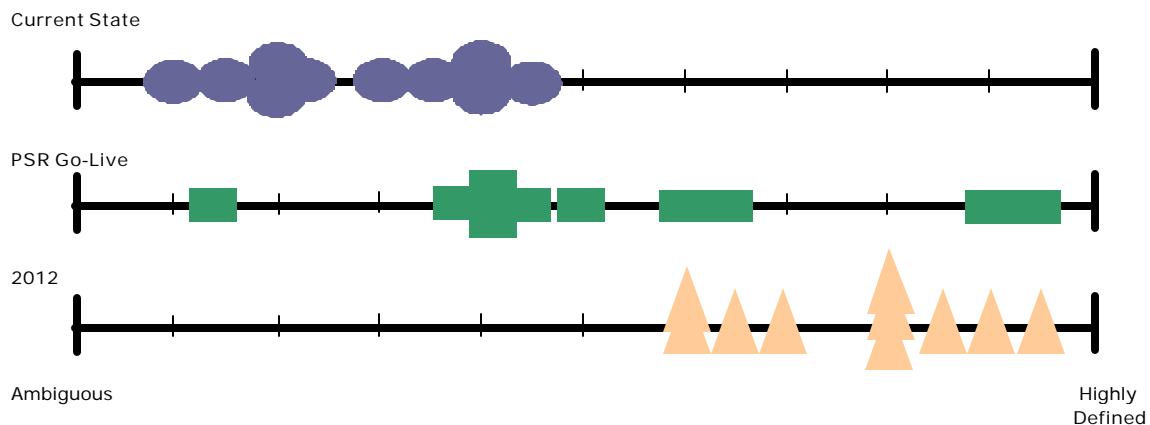
C. Accurate, reliable, efficient customer service



For this Guiding Principle, the executives were:

- Somewhat aligned on status of current state
- Not aligned for needs at PSR Go-Live
- Very aligned for needs in 2012

E. Defined governance process for decisions and priorities



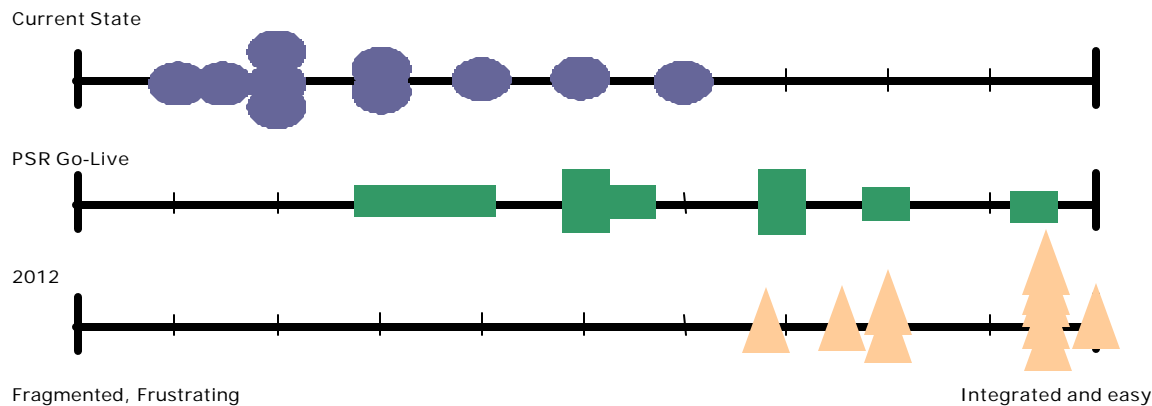
For this Guiding Principle, the executives were:

- Somewhat aligned on status of current state

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- Not aligned for needs at PSR Go-Live
- Somewhat aligned for needs in 2012

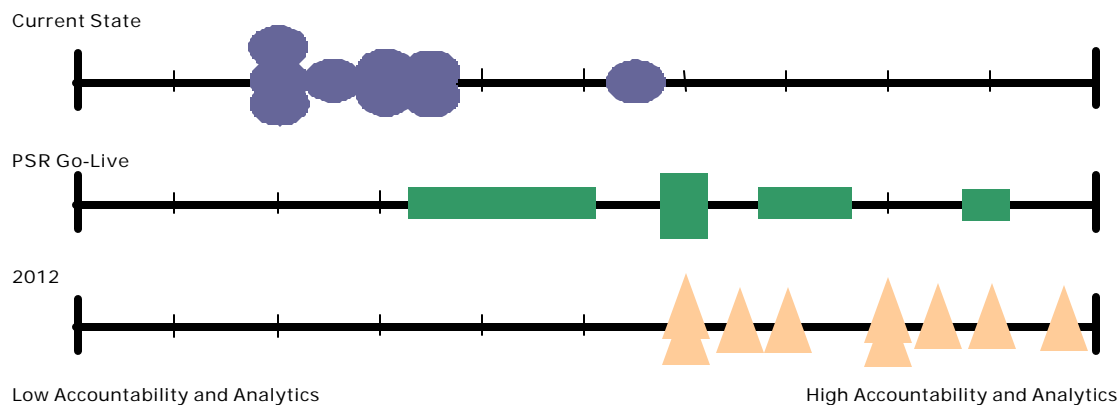
B. Integrated ease of doing business for customers



For this Guiding Principle, the executives were:

- Not aligned on status of current state
- Not aligned for needs at PSR Go-Live
- Somewhat aligned for needs in 2012

K. Accountability, analytics, and performance management



For this Guiding Principle, the executives were:

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- Mostly aligned on status of current state
- Not aligned for needs at PSR Go-Live
- Somewhat aligned for needs in 2012

From the ten completed workbooks, all executives completed 137 Guiding Principle continuums. The analysis of the continuums reflect their views of the current state and their beliefs of the needs for the future. The following table shows the Guiding Principles' average rating at current state. It is sorted from greatest to least difference between the current state and needs in 2012:

Principles	Average Rating at Current State	? Current to PSR Go-Live	? PSR Go-Live to 2012	? Current to 2012
C. Accurate, reliable, efficient customer service	3.1	3.8	1.8	5.7
B. Integrated ease of doing business for customers	3.0	2.8	2.8	5.6
E. Defined governance process for decisions and priorities	2.8	2.6	2.3	4.9
K. Accountability, analytics, and performance management	3.0	2.8	1.8	4.6
G. Nimble, change ready organization structure	2.5	2.5	2.0	4.5
I. Collaborative, knowledge sharing work environment	4.0	2.4	1.9	4.3
A. High value customer service experience	3.9	2.8	1.5	4.3
F. Process-focused organization structure	2.2	2.3	1.7	4.0
H. Revenue growth with less proportionate cost	3.4	2.1	1.8	3.9
J. Empowered employees	3.6	2.4	1.3	3.7
M. Proactive external marketing and branding	3.9	1.9	1.6	3.6
D. Balance and flexibility in level of centralization	3.4	1.4	1.7	3.2

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Principles	Average Rating at Current State	? Current to PSR Go-Live	? PSR Go-Live to 2012	? Current to 2012
N. Customer-focused organization structure	3.0	1.4	1.6	3.0
L. Proactive engagement with external stakeholders	5.2	1.4	1.3	2.6

2.3. Approved Guiding Principles

2.3.1. Methodology

The ETM team analyzed the executive workbook results and refined the Guiding Principles to four Guiding Principles, the ETM team considered the following:

- Importance rating results (what percentage of all monies allotted)
- Distribution of money from all executives (what number of executives allotted any amount of money)
- Synergies across some of the 14 original Guiding Principles
- OD implications in highest rated Guiding Principles

The ETM team then combined various Guiding Principles under common themes and revised the OD implications to strategically align with the new Guiding Principles. The least important Guiding Principles were dropped. Ultimately, the four proposed Guiding Principles were synthesized from eight of the fourteen Guiding Principles to create four new powerful Guiding Principles.

2.3.2. Revised Guiding Principles

The four revised, executive-approved Guiding Principles with the rationale of their selection are provided below:

1. Accurate, reliable, efficient, integrated service that customers find easy to use and of high value

This Guiding Principle is derived from the combination of the following three “like” initial Guiding Principles. The percentages in the table indicate the assigned importance from the \$100 Importance Rating exercise:

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Combination of:	
C. Accurate, reliable, efficient customer service (only Guiding Principle to which every Executive allotted money)	22%
B. Integrated ease of doing business for customers	9%
A. High value customer service experience	7%
Total of all Guiding Principles executive-allotted budget:	38%

Organization Model Implications of this Guiding Principle :

- Design roles that empower staff and include high level of problem-solving, business acumen, and counseling
 - Develop technological capability to support fast, accurate customer service (full or self-service)
2. Defined governance process for decisions and priorities

This was an original Guiding Principle that was kept the same. Below is the supporting evidence for why this was done:

Supporting Evidence:
• Guiding Principle received 14% on its own
• On average, executives each allotted \$20
• Only 1 executive did not allocate any money to this Guiding Principle

Organization Model Implications for this Guiding Principle:

- Define executive roles, authority, and accountability
 - Clarify process to surface and prioritize issues/needs
 - Define executive team decision-making process and methods
 - Build a process to define organizational implications in advance of decisions
 - Establish protocol for making system/technology changes
3. Balance and flexibility across process and function

This Guiding Principle is derived from the combination of the following three initial Guiding Principles. The percentages in the table indicate the assigned importance from the \$100 Importance rating exercise:

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Combination of:	
F. Process-focused organizational structure	7%
D. Balance and flexibility in level of centralization	6%
G. Nimble, change ready organization structure	5%
Total of all Guiding Principles executive -allotted budget:	18%

Organization Model Implications for this Guiding Principle:

- Build and maintain a change of mindset from traditional to process-focused (SOA) organization
 - Install mid-office operational centralization
 - Define functional processes that support business judgment, clear rationale, and ease of communication and inter-division use
 - Manage horizontally, rather than vertically for affected functions
4. Accountability, analytics, and performance management

This was an original Guiding Principle that was kept the same. Below is the supporting evidence for why this was done:

Supporting Evidence:
• Guiding Principle received 9% on its own
• On average, executives each allotted \$10
• Only 2 executives did not allocate any money to this Guiding Principle

Organization Model Implications for this Guiding Principle:

- Develop appropriate metrics and benchmarks, including reporting
- Build roles with results-orientation, including Key Performance Indicators (KPIs)
- Install performance management system that aligns organizational objectives and expectations on staff
- Increase business literacy and ability to manage by metrics in managers and staff

3. Operating Model

An Operating Model is used to understand the organizational structure for the enterprise. It provides a way to examine the business in terms of the key relationships between business functions, processes and structures that are required for the organization to fulfill its mission.

3.1. Methodology

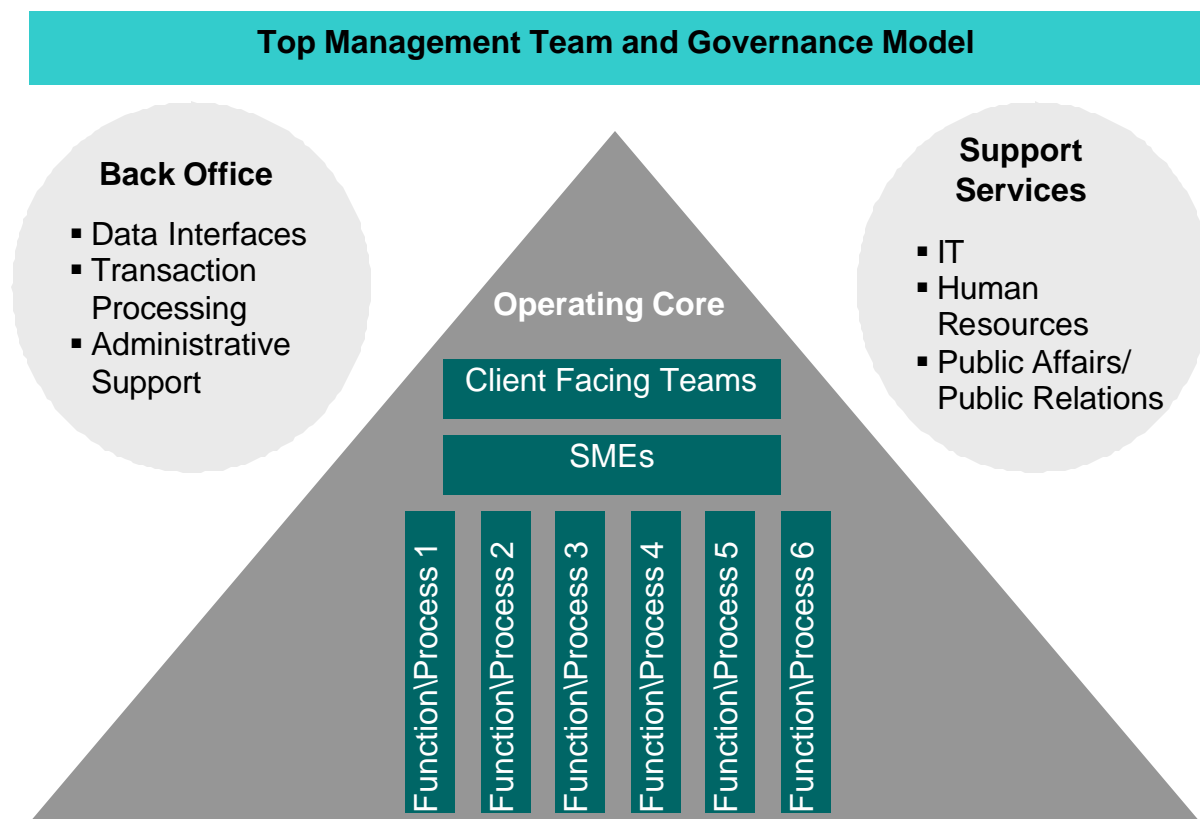
After gaining consensus from the executives on the Guiding Principles, the ETM team developed alternative Operating Models for CalPERS. In order to select an Operating Model that meets CalPERS' future business needs and drives the everyday work processes of the organization, ETM considered the following elements:

- New Guiding Principles
 1. Accurate, reliable, efficient, integrated service that customers find easy to use and of high value
 2. Defined governance process for decisions and priorities
 3. Balance and flexibility across process and function
 4. Accountability, analytics, and performance management
- Demographic Data
 - 32% of CalPERS staff population is eligible to retire (= 50 Years)
 - Stem negative implications of retiring workforce leaving with legacy information with loose-coupling between applications and services
 - Design future roles that empower staff and include high levels of problem-solving, business acumen, and counseling in order to drive recruitment
- Key Initiatives
 - Service Oriented Architecture
 - PSR
 - HR Modernization

3.2. Illustration of Operating Model

In order to develop a customized Operating Model that best meets CalPERS' needs, the ETM team began by documenting a generic model to illustrate the various components of the organization. The Operating Model consists of four operating blocks: top management team, back office, support services, and the operating core.

The illustration below shows the generic components of Operating Model:



In order to succeed in Organizational Design, all four components must be considered to ensure the design is internally coherent

3.2.1. Alternative Operating Models

In order to select an optimal Operating Model for CalPERS, the ETM team considered four alternative models: Function based, Customer based, Process based, and Hybrid – Customized.

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The first alternative, Function Based Model, groups activities and staff according to their business function and relies heavily on functional expertise to support core competencies. The description, strengths, weaknesses and an example in this model are provided below:

Description

- Most logical and simple form, focusing on a narrow range of skills/expertise
- Applicable when technology is routine, small number of products, and/or if interdependence across functional units is minimally required

Strengths

- Ideal when specialized resources are required
- Can be efficient, if there are economies of scale and cost controls
- Has collaboration and quality within each function
- Supervision is easier because mostly done within single function
- Easier to mobilize specialized skills when needed

Weaknesses

- Difficult to manage when numerous product lines/customer services are offered
- Quick action/decisions may be difficult
- More difficult to manage performance regarding each function's contribution to value chain
- Loyalty to functional silos may cause lack of coordination/cooperation
- Propagates systems that work in limited areas
- Cost reduction and organizational efficiency may be a challenge

Examples of functions at CalPERS

- Actuarial and Employer Services Branch, Health Benefits Branch, and Member and Benefits Services Branch

The second alternative, Customer Based Model, assigns responsibility to each customer unit for the design, production, sales, and service for a product/family of products. The description, strengths, weaknesses and an example in this model are provided below:

Description

- All resources are directly available to the customer unit

Deliverable 6.1 – Conceptual Organization Design

- Each customer unit is responsible for planning within the context of business strategies

Strengths

- Adaptable to fast-changing external environment
- Customer contribution/revenue/profit is easily calculated
- Accountability is clear
- Coordination of service and products across functions easier, given all resources within a unit are supporting the same customer
- Speed and often quality of decision making is enhanced

Weaknesses

- High cost structure due to poor economies of scale
- Likelihood of duplication
- Reduced specialization of skill
- Difficulty in coordination of multiple customers within a single geographic area
- Potential conflicts between customer unit and function unit interests

Example of Customer-focused groups at CalPERS

- Customer Relations for each CalPERS service or customer group (e.g., Schools)

The third alternative, Process Based Model, organizes the business horizontally around linked, end-to-end processes. The description, strengths, weaknesses and an example in this model are provided below:

Description

- Foundation is multifunctional teams, often self-directed and self-managed
- Teams, not functions or individual jobs, define the structure
- Rewards are focused on team performance
- Decisions are made at point of contact by empowered staff
- Decentralized, with few supervisors
- Functional expertise, which ensures successful delivery of enterprise services

Strengths

- Productivity, speed, and quality likely to be improved
- Layers of supervision removed resulting in cost reduction

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- Ideally, reduces functional silos and political problems
- Cost management more effective; clearer process based metrics
- Promotes systems that can be leveraged across the enterprise (SOA)

Weaknesses

- Can be difficult to change operating culture to a strong “process culture”
- Roles and responsibilities must be completely redefined, staff trained, and leaders coached
- May be more difficult to maintain technical excellence, if dispersed across processes

Examples of Processes at CalPERS

- Enrollments, Payments, Calculations

The forth alternative, Hybrid – Customized Model, blends two or more traditional forms of Organization Design to fit unique business needs. The description, strengths, weaknesses and an example in this model are provided below:

Description

- Often found in businesses with diverse strategies, markets, and products
- May be the result of mergers/acquisitions or an intermediate form of structure during a gradual shift of emphasis
- Process centered organizations almost always have a functional hybrid component

Strengths

- Ability to target organization to meet specific issues/solutions
- Can optimize performance by balancing the strengths of different models
- Can balance political power through organization units with different perspectives/strengths
- Requires development of systems that enable myriad and unknown (future) services (SOA), which promotes nimbleness, change readiness, and faster response to customer (internal and external) requests

Weaknesses

- Some duplication
- Managerial control and coordination may be more difficult
- Requires additional communication to avoid misperception

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- Could be perceived as inconsistent or unfair

CalPERS example

- Customized to each organization

3.2.2. Recommended Operating Model

The ETM team considered the following key factors from the CalPERS organization analysis and the executive workbook results to make the Operating Model recommendation:

1. A strong customer service culture
2. Similar processes across branches and divisions
3. Future plans for diverse market strategies, products, and services
4. Organizational request for dynamic, reusable, and efficient systems (Service Oriented Architecture)
5. Executive alignment in desire for increased governance (decision making and prioritization)

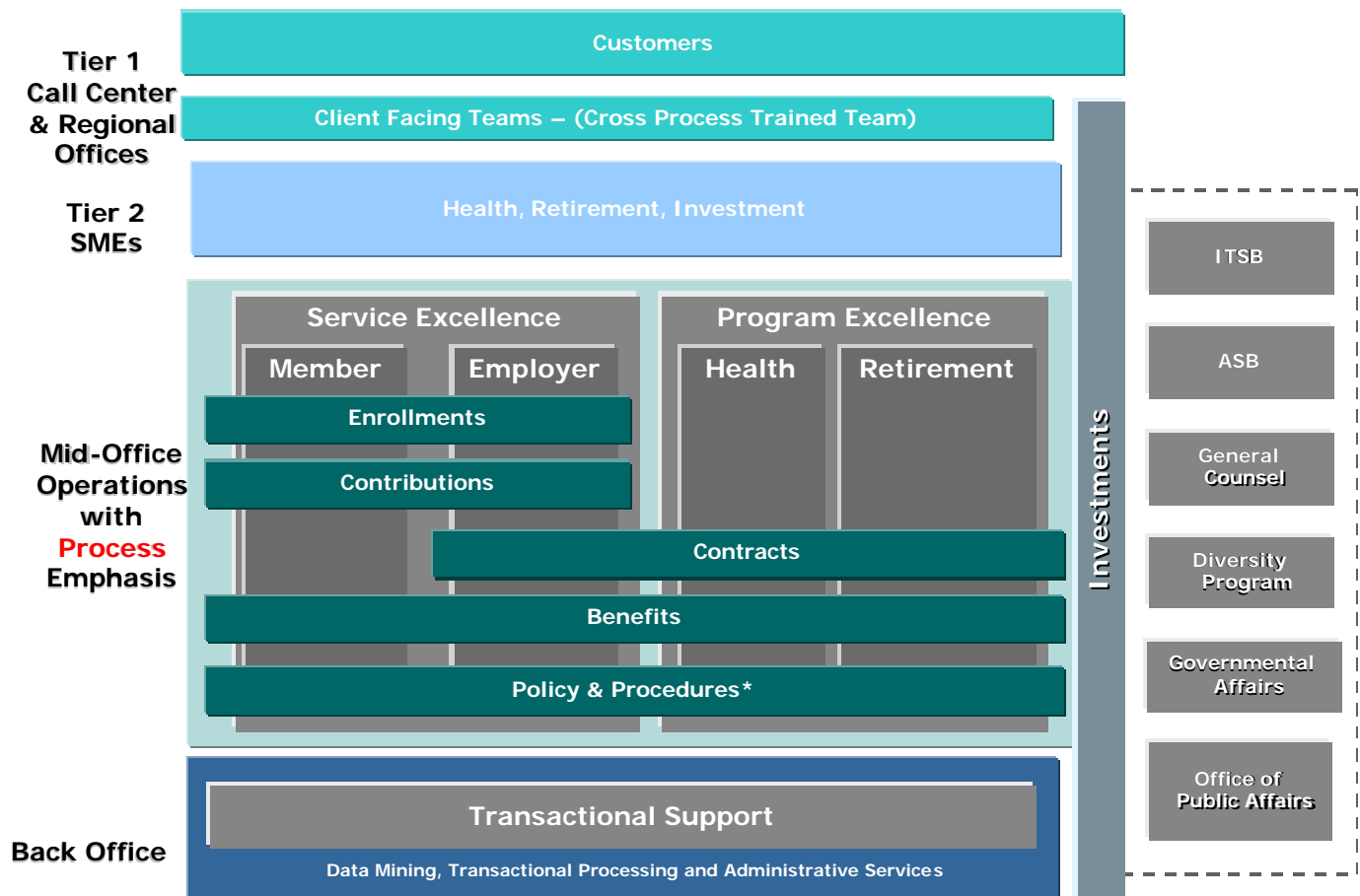
CalPERS future organization structure should strike a balance between a customer-centric and a process-centric organization with roles for functional experts. Therefore, ETM recommends a Hybrid Customer and Process Based Organization Structure.

The recommended Operating Model incorporates the following key components:

- Tier 1 (Call Center and Regional Offices) – Includes client facing teams, that assist customers through the Call Center and Regional Offices.
- Tier 2 – Includes a set of subject matter experts in program areas including Health, Retirement and Investments.
- Mid-Office Operations – Includes various functions separating Service and Programs to create clear areas of specialized focus. Separation of Member and Employer creates a key customer focus and separation of Health and Retirement develops focused program expertise. Processes run horizontally through the organization, and cross specific areas that they pertain to. Enrollments, Contracts, Contributions and Benefits are 4 key processes derived from PSR and Policy and Procedures is a supporting process built within the service and program components.
- Back Office – Includes transactional work, which supports the entire organization.
- Support Services lie on the side and support the entire organization and its operations.

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The picture below represents the interconnectivity between the functions and processes in the operating core:



4. High-level Organization Design

High-level organization design defines the top three layers (CEO, DEO, AEO) of the organization.

4.1. Methodology

Based on the consensus from the executives on the Guiding Principles and Operating Model, the ETM team researched various options for organization structures and tested them against the CalPERS model. In the development of the alternative structures, the ETM greatly considered the impacts that implementation of PSR will have on the organization. The learnings from one-on-one executive interviews, which highlighted the concerns and needs of the executives from various areas within the current organization, were also incorporated along with the research and knowledge of external leading practices.

In order to develop alternatives to present to the executive team, The ETM team considered the following additional elements:

- Vision for excellent customer service
 - Mission of CalPERS focuses on service
 - Board commitment to excellent service
 - Desire to modernize/upgrade service experience
 - Need to improve accuracy and reliability
- PSR creates significant, new capabilities and requirements
 - More and better self-service
 - Easy access to integrated information to multiple users simultaneously
 - Ability to manage across processes to increase speed, consistency, and quality
 - Support for service oriented architecture
- CalPERS is growing quickly today; should prepare for more growth
 - Added 500 employees in last 2 years
 - Opportunities for further growth (e.g., OPEB)

4.2. Alternative Organization Structures

Based on the preceding analysis and information, the ETM team developed alternative Organization Structures for CalPERS and presented them to the executive team.

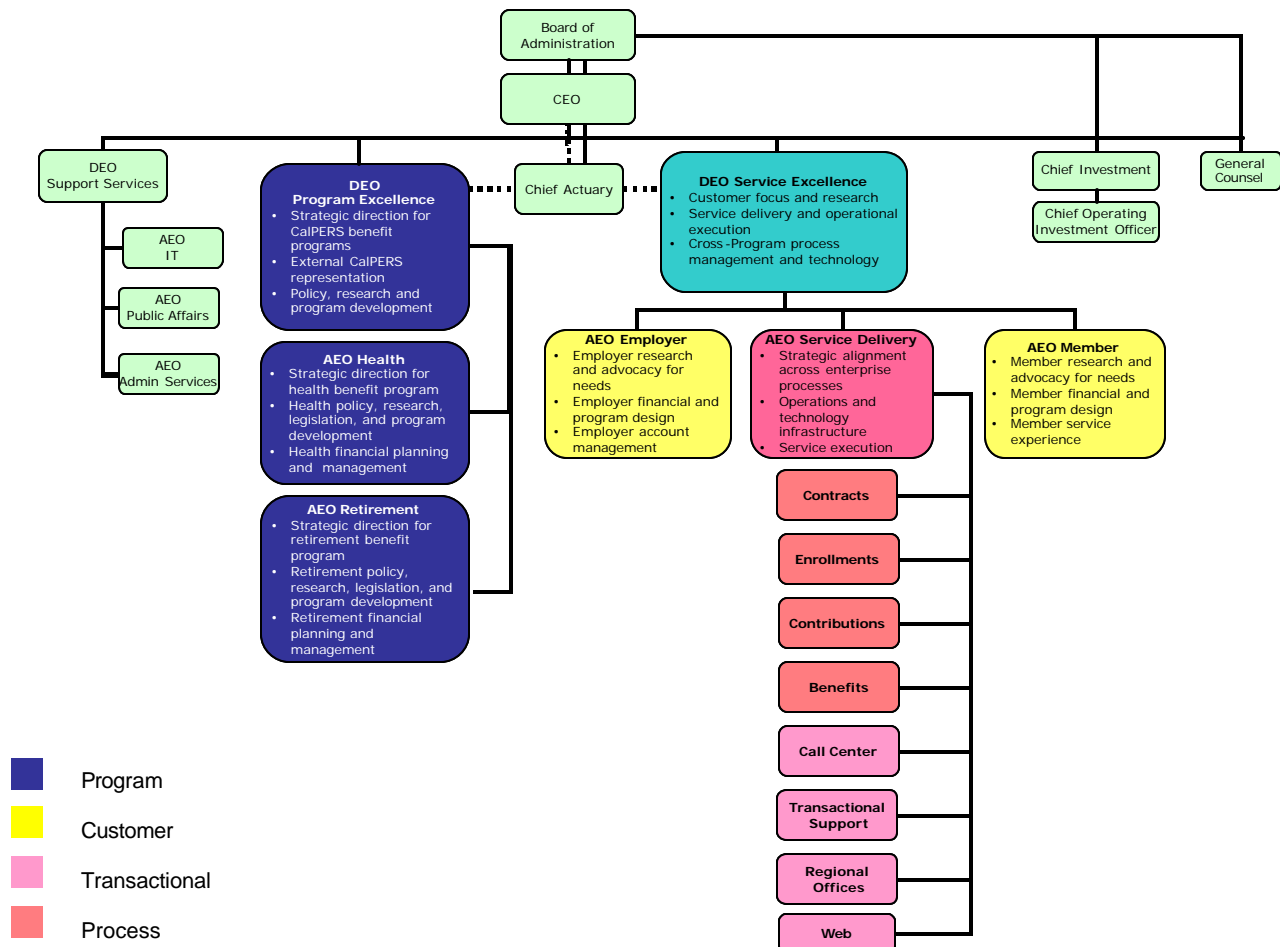
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Through numerous meetings and discussions, proposed alternatives were modified and presented. The following sections show focus, definition, features, picture, and pros and cons for each alternative.

4.2.1. Alternative Structure 1

Hybrid: Focused Program and Service Organizations (with Process and Customer components nested within Service)

- Definition:
 - Balanced structure between Program, Customer, and Process focus
- Features:
 - 3 DEOs – Program Excellence, Service Excellence, Support Services
 - Clearer, specialized focus within each DEO's scope of responsibility
 - Focused enterprise-wide Process management under AEO Service Delivery
 - Dedicated focus for Members and for Employers
 - Stronger emphasis on Program Excellence
 - DEO Support Services remains same as current state (different titling)



Deliverable 6.1 – Conceptual Organization Design

The table below lists the pros and cons for alternative structure 1:

Pros	Cons
<ul style="list-style-type: none"> Provides clear focus in roles and responsibilities as a specialist organization 	<ul style="list-style-type: none"> Includes a large span of control for AEO Service Delivery
<ul style="list-style-type: none"> Significantly elevates Program Excellence to encourage new products, innovation, and thought leadership in external marketplace 	<ul style="list-style-type: none"> Requires approval of a new DEO
<ul style="list-style-type: none"> Balances governance structure with 3 strong, differentiated DEO roles 	<ul style="list-style-type: none"> Requires AEO Service Delivery to collaborate with Program and Customer leaders to ensure that enterprise processes are flexible enough to support new programs, but consistent enough to maintain efficiency
<ul style="list-style-type: none"> Offers dedicated focus on service execution with an AEO of Service Delivery 	<ul style="list-style-type: none"> Requires clear policies and procedures across organization to ensure service deliverers have all information needed to handle issues
<ul style="list-style-type: none"> Encourages clear accountability and performance measurement due to specialist orientation 	<ul style="list-style-type: none"> Requires Program Excellence leaders to collaborate with Customer leaders and Service Delivery to ensure products and services meet customer needs
<ul style="list-style-type: none"> Promotes “segregation of duties” to support compliance and audit integrity 	
<ul style="list-style-type: none"> Enables fast integration and performance of new hires, as well as more effective career paths 	

4.2.2. Alternative Structure 1a

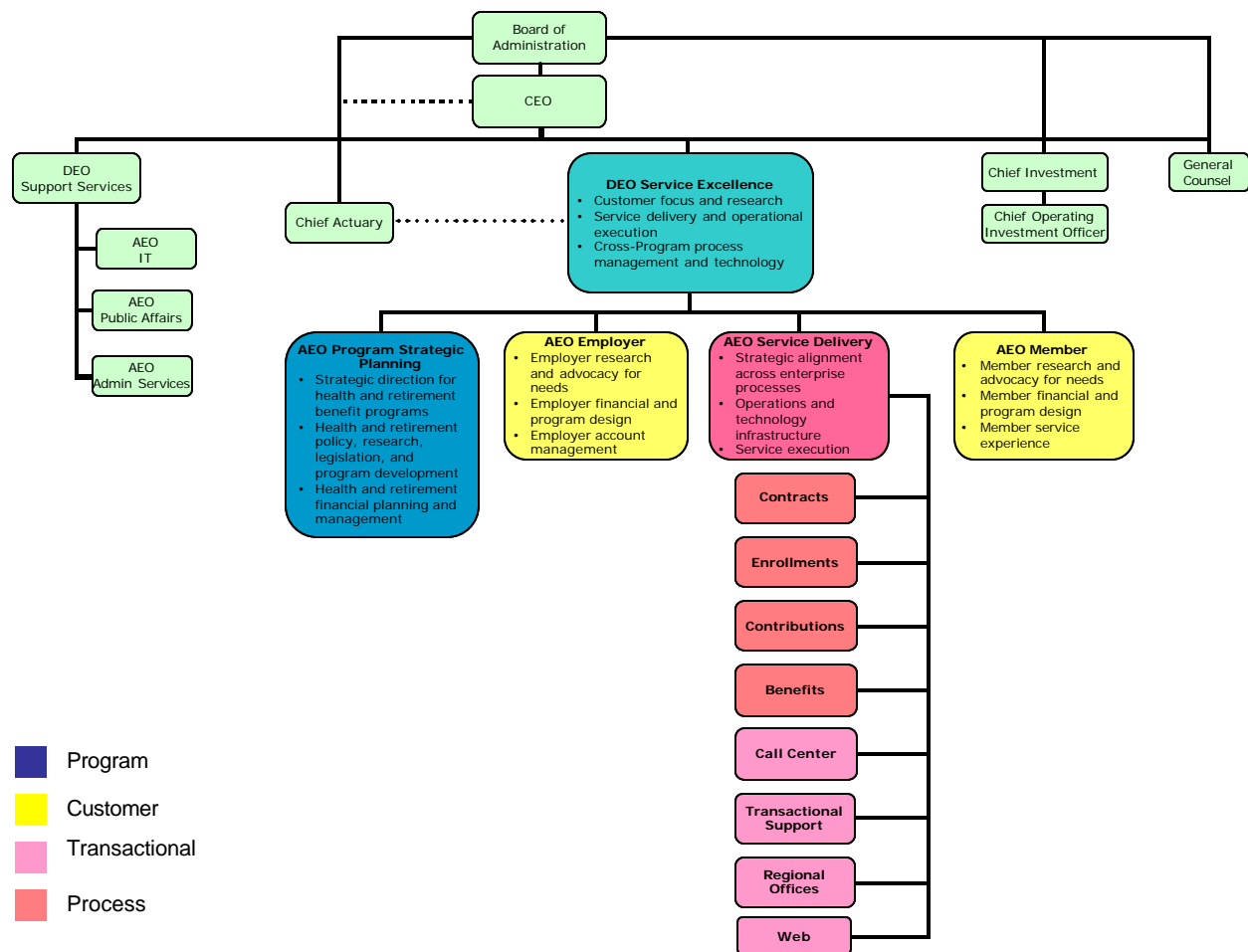
Hybrid: Service Organizations (with Process, Program and Customer components nested within Service)

This alternative is a modified version of the alternative structure 1. Based on executive feedback, the role of DEO Program Excellence, AEO Health, and AEO Retirement is consolidated into one role of AEO Program Strategic Planning.

- Definition:
 - Structure with balance between Program, Customer, and Process focus

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- Features:
 - 2 DEOs – Service Excellence, Support Services
 - Clearer, specialized focus within each DEO's scope of responsibility
 - Focused enterprise-wide Process management under AEO Service Delivery
 - Dedicated focus for Members and for Employers
 - DEO Support Services remains same as current state (different titling)



Deliverable 6.1 – Conceptual Organization Design

The table below lists the pros and cons for alternative structure 1a:

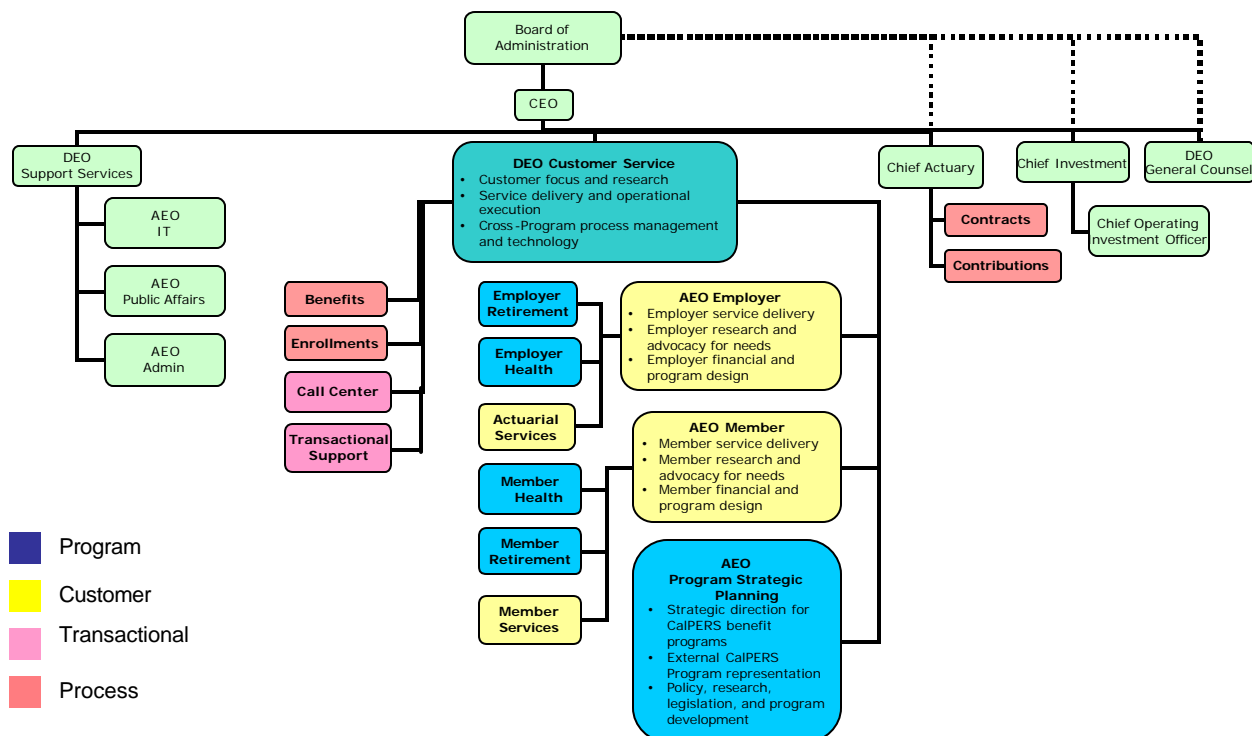
Pros	Cons
<ul style="list-style-type: none">• Same as for Alternative 1, except that Program Excellence is diminished in stature with no DEO and a single AEO responsible for strategic planning for both Health and Retirement	

Deliverable 6.1 – Conceptual Organization Design

4.2.3. Alternative Structure 2

Hybrid: Customer-centric, with Process and Program Components

- Definition:
 - Structure with Customer emphasis and supporting Program and Process owners
- Features:
 - 2 DEOs: Customer Service and Support Services
 - Strong customer focus: Program and Service delivery nested within Member and Employer organizations
 - Program also represented in AEO, Program Strategic Planning
 - Process owners, split between DEO, Customer Service and Chief Actuary
 - DEO, Support Services remains same as current state (different titling)

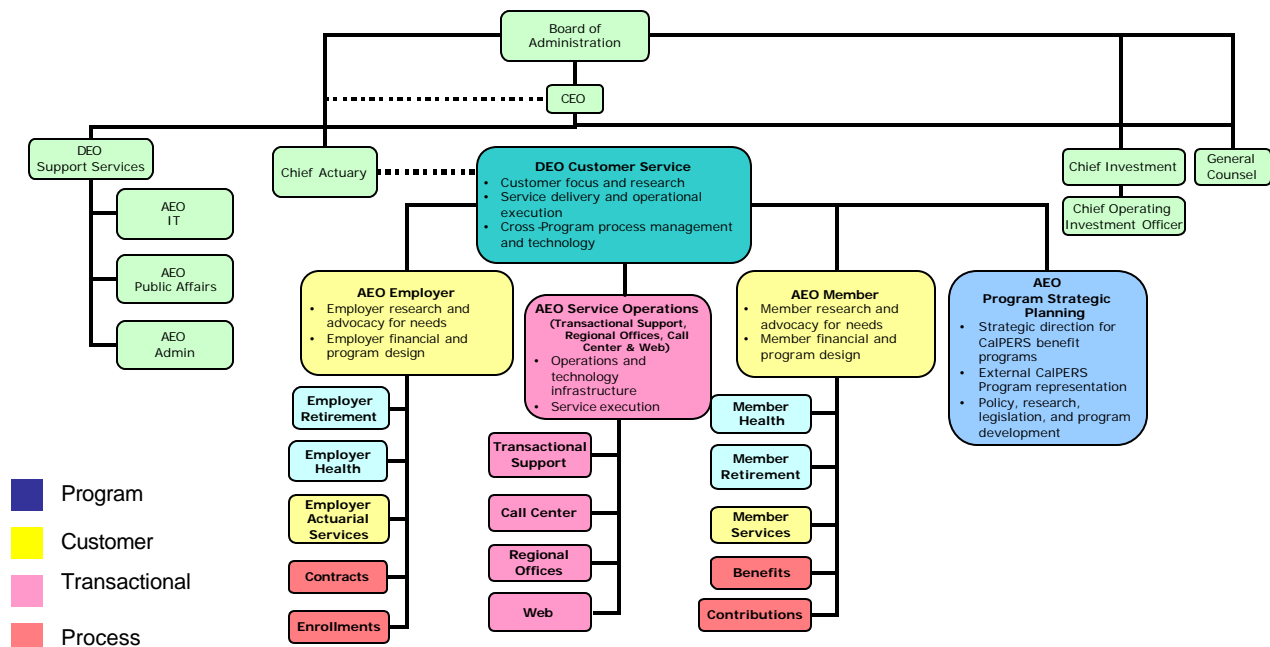


Deliverable 6.1 – Conceptual Organization Design

4.2.4. Alternative Structure 2a

Hybrid: Customer-centric, with Process and Program Components

Alternative structure 2a is a modified version of the alternative 2. Based on the executives' feedback, all processes are distributed among AEO Member and AEO Employer. A new AEO Service Delivery is added to oversee Call Center, Transactional Support, and Regional Offices. The definition and the features for this alternative remain the same as alternative structure 2.



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The table below lists the pros and cons for alternative structure 2a:

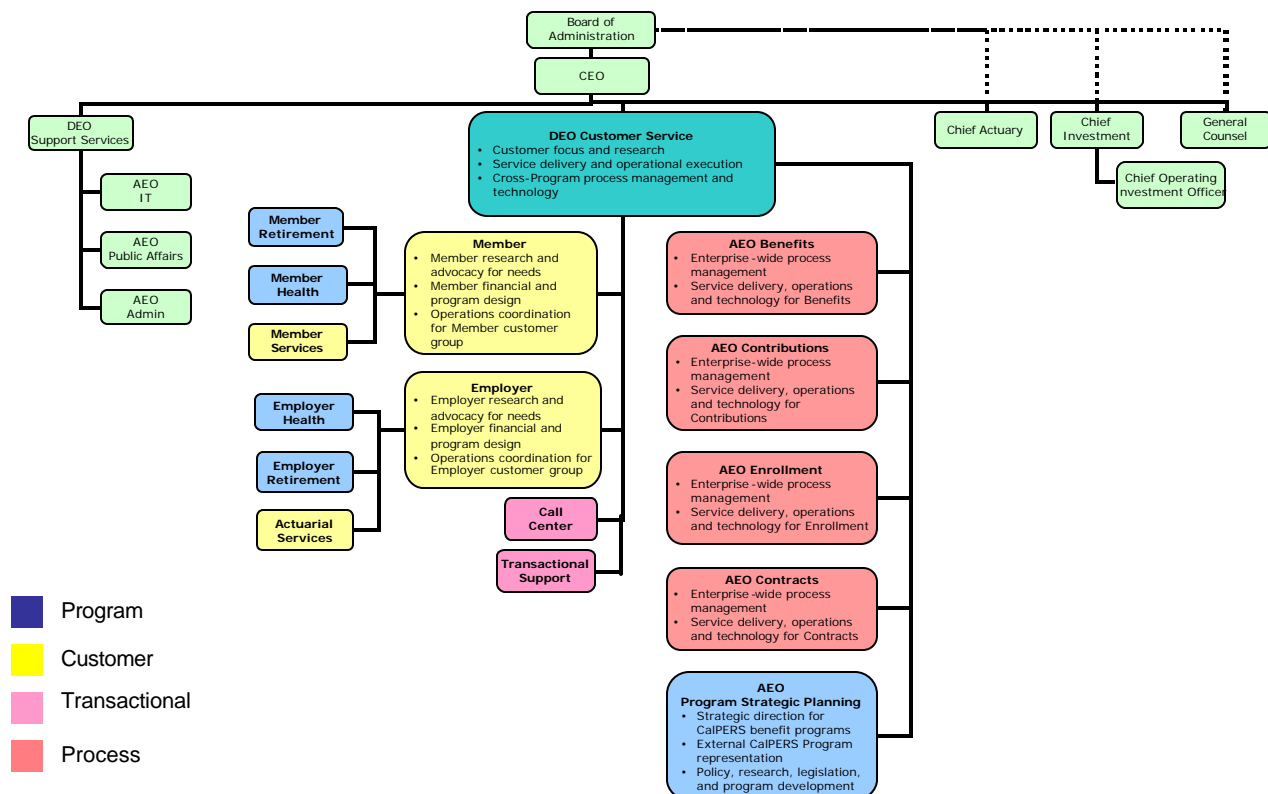
Pros	Cons
<ul style="list-style-type: none"> More balanced span of control for each AEO 	<ul style="list-style-type: none"> Processes separated between Member and Employer while utilized by both
<ul style="list-style-type: none"> Broadens roles for AEOs of Member and Employer with integration of Program and Process into a Customer organization 	<ul style="list-style-type: none"> Requires coordination among AEO Service Delivery and AEO Employer and AEO Member, to deliver sufficient knowledge and effective resources to best meet customer needs
<ul style="list-style-type: none"> Provides clear product ownership by customer type and program subject matter expertise 	<ul style="list-style-type: none"> Requires collaboration between product managers and program strategic planning in order to ensure programs meet customers' needs and set CalPERS up for future success
<ul style="list-style-type: none"> Supports fast response to certain kinds of customer and market needs, particularly those that don't affect the larger enterprise 	<ul style="list-style-type: none"> Requires clear responsibility delineation in order to ensure resources are used efficiently in Member and Employer functions (and to avoid redundancy across Health and Retirement program work)
<ul style="list-style-type: none"> Offers dedicated focus on service delivery and clear escalation paths for Tier 2 support with product managers in Member and Employer 	<ul style="list-style-type: none"> Requires defining which area will handle Tier 2 customer service (Program area product managers or SMEs in the call center)
<ul style="list-style-type: none"> Supports ease of transition and minimizes disruption from current organization (most like current organization) 	

Deliverable 6.1 – Conceptual Organization Design

4.2.5. Alternative Structure 3

Hybrid: Process-centric, with Customer and Program Components

- Definition:
 - Structure with Process emphasis and supporting Customer and Program groups
- Features:
 - 2 DEOs: Customer Service and Support Services
 - 1 AEO-level Process Owner: Process Owners drive service delivery
 - Strong enterprise-wide Process management (supports SOA)
 - Separate organizations focused on Members and Employers
 - Program nested within Member and Employer organizations, also represented in AEO Program Strategic Planning
 - DEO Support Services remains same as current state (different titling)

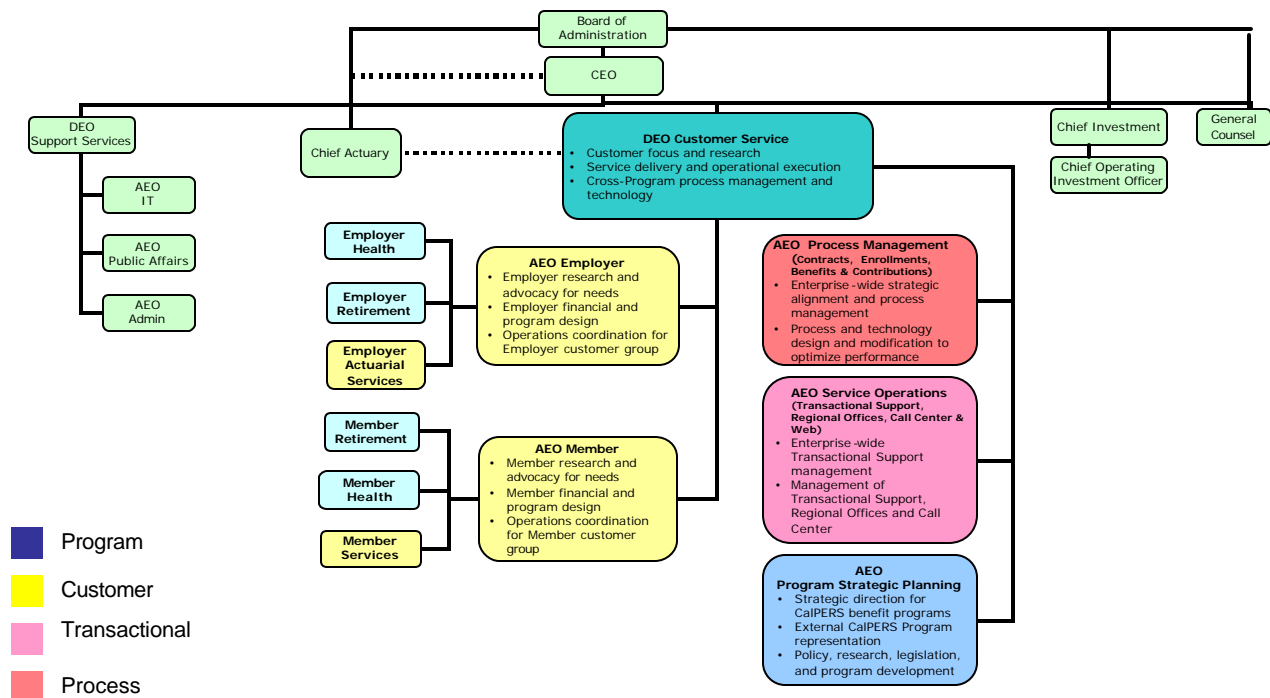


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4.2.6. Alternative Structure 3a

Hybrid: Process-centric, with Customer and Program Components

Alternative structure 3a is a modified version of alternative structure 3. Based on the executives' feedback, the leadership of processes is consolidated and a new AEO of Call Center, Transactional Support, and Regional Offices is added. The definition and the features for this alternative remain the same as alternative structure 3.



Deliverable 6.1 – Conceptual Organization Design

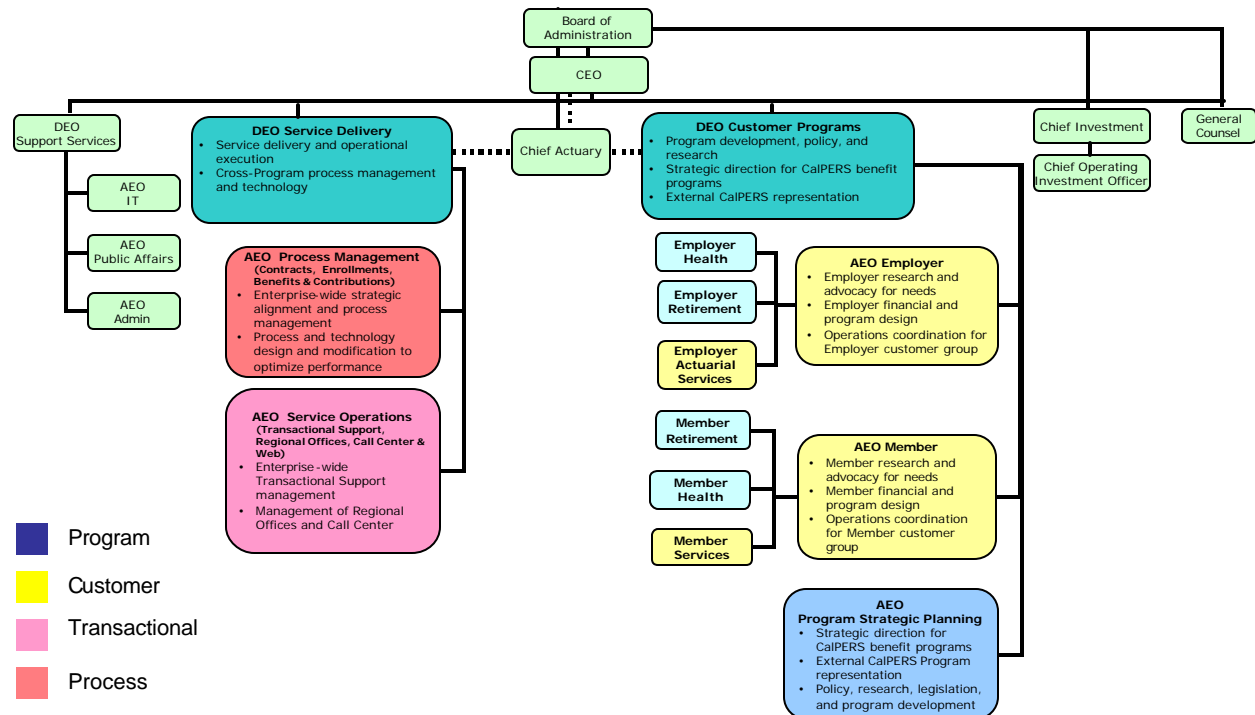
The table below lists the pros and cons for alternative structure 3a:

Pros	Cons
<ul style="list-style-type: none"> Has clear AEO accountability for Processes which will drive consistency and efficiency for process implementation and/or change across enterprise 	<ul style="list-style-type: none"> Requires collaboration between Member and Employer to ensure consistency and efficiency in Health and Retirement programs and service delivery
<ul style="list-style-type: none"> Has clear AEO accountability for Transactional service delivery across back office, call center and regional offices 	<ul style="list-style-type: none"> Requires DEO of Customer Service to handle a large, diverse set of responsibilities
<ul style="list-style-type: none"> More balanced span of control for each AEO 	<ul style="list-style-type: none"> Requires defining which area will handle Tier 2 customer service (Program area product managers or SMEs in the call center)
<ul style="list-style-type: none"> Encourages clear accountability and performance measurement due to specialist orientation 	
<ul style="list-style-type: none"> Promotes “segregation of duties” to support compliance and audit integrity 	
<ul style="list-style-type: none"> Enables fast integration and performance of new hires, as well as more effective career paths 	

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4.2.7. Alternative Structure 3b

Alternative structure 3b is a modified version of alternative 3a. Based on the CEO's feedback, a new DEO, Customer Programs is added in this structure. The definition and the features for this alternative remain the same as alternative structure 3.



Deliverable 6.1 – Conceptual Organization Design

The table below lists the pros and cons for alternative structure 3b:

Pros	Cons
<ul style="list-style-type: none"> Balances governance structure with 3 strong, differentiated DEO roles 	<ul style="list-style-type: none"> Requires coordination among AEO Employer and AEO Member and AEO Transactional Support, Regional Offices, and Call Center to deliver sufficient knowledge and effective resources to best meet customer needs
<ul style="list-style-type: none"> Offers dedicated focus on service execution and process standardization with a DEO of Service Delivery 	<ul style="list-style-type: none"> Requires clear responsibility delineation in order to ensure resources are used efficiently in Member and Employer functions (and to avoid redundancy across Health and Retirement program work)
<ul style="list-style-type: none"> DEO of Customer Programs integrates Customer and Program perspectives to respond effectively to market and external change 	<ul style="list-style-type: none"> Requires AEO Program Strategic Planning to coordinate with AEO Transactional Support, Regional Offices, and Call Center to ensure that proposed programs can be operationalized
<ul style="list-style-type: none"> Segregates DEO and AEO duties for compliance and audit integrity with distinct roles in program, process, and service area 	<ul style="list-style-type: none"> Requires defining which area will handle Tier 2 customer service (Program area product managers or SMEs in the call center)
<ul style="list-style-type: none"> Encourages clear accountability and performance measurement due to specialist orientation 	<ul style="list-style-type: none"> Requires AEO Contracts, Enrollments, Benefits & Contributions to collaborate with AEO Program Strategic Planning to ensure that enterprise processes are flexible enough to support new programs, but consistent enough to maintain efficiency
<ul style="list-style-type: none"> Enables fast integration and performance of new hires, as well as more effective career paths 	

5. Conceptual Organization Design

Organization Design methodology includes “Top Down” and “Bottom Up” activities. “Top Down” is done first. The Conceptual Organization Design (top three levels) is not the final answer. It is a “stake in the ground” framework against which detailed design is conducted. The Conceptual Organization Design can (and likely will) evolve during the design process. The following may change in the Conceptual Design:

- The number of positions within the top three levels
- The position titles and levels
- The reporting relationships, both solid and dotted line

Conceptual Design is very valuable at the beginning of a change project because it:

- Provides a context to balance larger business needs with new technology capabilities
- Is a comparison point for process redesign, skills assessment, and other change activities
- Is a comparison point in “fit analysis” for important business scenarios
- Can help guide the stakeholder input and validation process
- Is the basis for designing and testing governance processes and tools

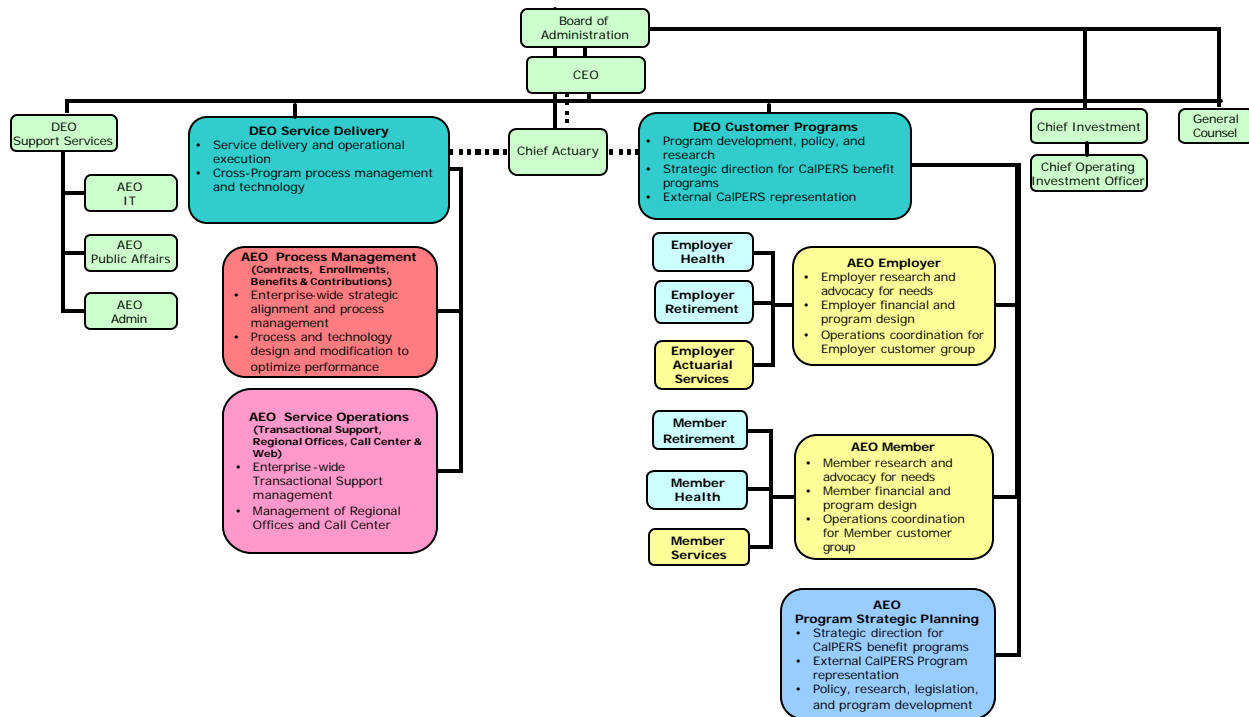
5.1. Methodology

As per executive feedback, the recommended High-level Organization Structure along with core capabilities of the new/modified positions was presented to the executives. CalPERS’ executives directed the ETM team to continue to develop further detail on the recommended structure as described in section 5.2 below.

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5.2. High-level Organization Structure

Accepted High-level Organization Structure:



The structure above was tested against the executive approved Guiding Principle to ensure alignment. The following table lists the Guiding Principles and demonstrates how they are reflected in the High-level Organization Structure:

Guiding Principles	Reflected in Design
1. Accurate, reliable, efficient, integrated service that customers find easy to use and of high value	<ul style="list-style-type: none"> Dedicated focus for Service Delivery continually enhances processes and service execution to increase accuracy, quality, speed, productivity, and customer satisfaction Dedicated focus for Member and Employer Customer Programs ensures that customer needs are understood and met, introduces customers to full range of services provided by CalPERS Dedicated focus on Program Strategic

Deliverable 6.1 – Conceptual Organization Design

Guiding Principles	Reflected in Design
	Planning aligns CalPERS offerings with future and external factors
2. Defined governance process for decisions and priorities	<ul style="list-style-type: none"> Balanced governance structure with 3 strong, differentiated DEO roles Differentiated AEO roles, responsibilities and ownership
3. Balance and flexibility across process and function	<ul style="list-style-type: none"> Interdependencies across Process Management and Customer Programs that facilitate performance and information exchange
4. Accountability, analytics, and performance management	<ul style="list-style-type: none"> Consolidated management of processes to add greater rigor and management control Clear, focused performance expectations and metrics Fast integration and performance of new hires, as well as more effective career paths

5.2.1. Roles and Responsibilities in the Conceptual Organization Design

The table below lists the draft responsibilities for the new and modified positions in the top 3 layers on the organization:

Role	Core Focus	Key Tasks	Key Metrics
DEO Service Delivery	<ul style="list-style-type: none"> This position is responsible for creating and leading a service delivery infrastructure for customer transactions and services. This is a key leadership 	<ul style="list-style-type: none"> Develop and manage an overall customer service strategy that supports all customers, services, and programs. Lead the development of processes, technology and service operations to deliver world-class customer 	<ul style="list-style-type: none"> Service transaction performance: volume, accuracy, quality, speed Customer satisfaction with service delivery

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Role	Core Focus	Key Tasks	Key Metrics
	role that integrates CalPERS process, technology, and service operations to meet all current and future customer service delivery needs.	<p>experience.</p> <ul style="list-style-type: none"> Oversee daily operations of service delivery to meet targets for accuracy, quality, speed, productivity and customer satisfaction. Help lead activities to ensure customer programs and services are structured to support effective service delivery. 	<ul style="list-style-type: none"> Migration to self-service and process consistency/simplification Productivity and cost/resource management Ability to support growth of products, services and volume
DEO Customer Programs	<ul style="list-style-type: none"> This position is responsible for leading the strategic direction of CalPERS benefit programs to meet customer needs and ensure market leadership. This is a key leadership role to deliver program excellence and customer loyalty by leveraging customer and market research, technical expertise, and financial and relationship management. 	<ul style="list-style-type: none"> Develop and manage an overall program benefit strategy to keep CalPERS a leader in meeting current and future customer needs. Ensure research on customers, external trends, and legal/benefit issues to continually develop and improve benefit programs. Influence and advocate for CalPERS programs and policy with customers and external stakeholders nationally and in California. Help lead activities to ensure customer needs are understood and that Retirement and Health programs are effectively designed, funded and 	<ul style="list-style-type: none"> Health and Retirement program quality: technical, financial, customer volume, external credibility. Customer loyalty and satisfaction, penetration and relationship management Program innovation: new products and features, program value Advocacy effectiveness with legislature and other stakeholders

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Role	Core Focus	Key Tasks	Key Metrics
		delivered to meet them.	
AEO Process Management (Contracts, Enrollments, Benefits & Contributions)	<ul style="list-style-type: none"> This position is responsible for defining, measuring, improving and managing core enterprise-wide processes, including Contracts, Enrollment, Benefits and Contributions. This role champions the practice of process management at CalPERS in order to promote performance, consistency, speed and effectiveness of core processes. 	<ul style="list-style-type: none"> Map selected business processes to identify key activities, customer requirements, potential bottlenecks, and differences by business unit, technology interfaces, resource needs, and performance targets. Develop and lead a process measurement and management system to promote performance, controls and continuous improvement. Advocate with and educate employees/process participants regarding how to use processes to achieve maximum performance. Collaborate closely with Program, Service Delivery and ITSB staff to ensure processes support all business goals. 	<ul style="list-style-type: none"> Organizational adoption of process management techniques and targets across business units. Process performance: quality, cycle time, cost, customer satisfaction. Resource management: staff and technology productivity. Ability to support diverse products, changes, and volume increases.
AEO Service Operations (Transactional Support, Regional Offices, Call Center & Web)	<ul style="list-style-type: none"> This position is responsible for setting direction and overseeing the Call Center, Regional Offices, Transactional 	<ul style="list-style-type: none"> Oversee the provision of services and education to members and employers through call center, regional offices, transactional support and the 	<ul style="list-style-type: none"> Customer satisfaction with the call center and regional offices Service transaction

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Role	Core Focus	Key Tasks	Key Metrics
	Support, and Web Services to best meet customer needs. This role ensures high levels of operational execution and service delivery to meet all customer service standards.	<p>Internet.</p> <ul style="list-style-type: none"> • Develop and implement strategies to drive service delivery and transactions through self-service and back office where possible. • Continually enhance processes and service delivery to increase accuracy, quality, speed, productivity, and customer satisfaction. • Collaborate closely with Program and Customer organizations to ensure service delivery meets business requirements. 	<p>performance: volume, accuracy, quality, speed</p> <ul style="list-style-type: none"> • Migration to self-service and use of Web for transactional work • Attraction and retention of staff
AEO Employer	<ul style="list-style-type: none"> • This position is responsible for developing and maintaining strong partnerships with key leaders and decision-makers from local agency employers and others responsible for contracting with and contributing to the CalPERS benefit programs. This role ensures that CalPERS clearly understands 	<ul style="list-style-type: none"> • Develop and maintain account management, education and outreach programs to ensure strong relationships with employers. • Lead market research into the current and future benefit program needs of employers, to support increased participation and the development of new or improved products and services. • Help lead the design of benefit programs and service delivery to meet the needs of employers and CalPERS financial 	<ul style="list-style-type: none"> • Employer retention and satisfaction • Number of customer employers and volume for each • Program innovation: new products and features to enhance benefit program value to employers • Financial and operational performance of employer programs

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Role	Core Focus	Key Tasks	Key Metrics
	current and future employer needs and provides effective programs and services to meet them.	<p>targets</p> <ul style="list-style-type: none"> • Ensure effective problem-solving and service delivery for employers. • Act as an advocate for employers internally and externally. 	
AEO Member	<ul style="list-style-type: none"> • This position is responsible for developing strong customer loyalty with members in order to retain and increase their contributions to CalPERS benefit programs. The role leads research into the current and future needs of members and ensures effective programs and services to meet them. 	<ul style="list-style-type: none"> • Develop and maintain communication, education and outreach programs to ensure strong relationships with members. • Lead market research into the current and future benefit program needs of members, to support increased participation and the development of new or improved products and services. • Help lead the design and maintenance of benefit programs to meet the needs of members and CalPERS financial targets • Help to design and oversee a service delivery system for members that encourages self-service, operational effectiveness and customer satisfaction. 	<ul style="list-style-type: none"> • Member satisfaction • Program innovation: new products and features to enhance benefit program value to members • Financial and operational performance of member programs

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Role	Core Focus	Key Tasks	Key Metrics
AEO Program Strategic Planning	<ul style="list-style-type: none"> This position is responsible for leading the design and development of CalPERS benefits programs/policies to meet all market, customer, technical, and legal requirements. The role serves as a program thought leader and technical expert within CalPERS focused on both internal program/service development and external program representation. 	<ul style="list-style-type: none"> Develops short and long term benefit program strategies based on market trends, financial analysis, customer needs, and technical expertise to help maintain CalPERS as a benefit program leader. Collaborates closely with Customer organizations to develop and improve products and services. Monitors potential competitors, market opportunities, and current/future risks and issues affecting benefit programs. Represents CalPERS externally on program and policy issues as an advocate and technical expert. 	<ul style="list-style-type: none"> Program innovation: new products and features to enhance program value Monitoring of external environment for risks and opportunities Collaboration with Customer and Service Delivery organizations Influence with external stakeholders such as Legislature, national benefits organizations, or key customer groups

5.2.2. Governance

A well-defined governance model defines decisions that are sound, consistent and efficient through systematic interactions among key stakeholders. The key elements of a governance model indicate:

- An established process in which decisions are made and executed effectively
- Responsibility for specific key decisions
- Authority and accountability to make and execute decisions
- Involvement of key stakeholders in the decision-making process
- Established methods to resolve impasses

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The ETM team considered the 2005 CalPERS Study on Enterprise Governance as a starting point for the development of a governance model for CalPERS. The proposed next steps are listed below:

- Coordinate with Strategic Management Services Division (SMSD) regarding the future of the governance process
- Create clear and specific roles and responsibilities for CEO, DEO and AEO levels
- Create and/or implement more effective decision-making process
- Integrate new roles and decision-making into future governance process
- Measure and continuously improve the effectiveness of the governance process

Further detail on governance will be provided in Deliverable 6.3 – Detailed Organization Design.

6. Next Steps

As a result of the approval of Conceptual Organization Design, there will be continuous discussions with the executives to share further detail. The ETM team will develop additional features of this structure, which are described in the further detail in the section below.

6.1. Future Features

The ETM team will use this Conceptual Organization Design to develop supplementary features. Each of the features is described in the table below along with its components:

Feature	Description	Component
Governance structure	<ul style="list-style-type: none"> • The mechanism through which an organization is managed so that it meets its objectives 	<ul style="list-style-type: none"> • Defined responsibilities and ownership • Decision making process, including who is responsible for, accountable for, needs to be informed, and needs to be consulted for each selected decision • Proposed governance meeting structure, including attendees, types of topics, authority,

Deliverable 6.1 – Conceptual Organization Design

Feature	Description	Component
		etc.
Linking mechanisms	<ul style="list-style-type: none"> The liaison roles and collaboration processes that facilitate information exchange and performance between groups 	<ul style="list-style-type: none"> Information flow requirements Specific ways to facilitate the flow of information to meet the requirements A comprehensive evaluation against the criteria (conducted in the Fit Analysis)
Career pathing for workforce recruiting and development	<ul style="list-style-type: none"> The career paths, recruiting strategies, and development options available within the new structure 	<ul style="list-style-type: none"> Career paths and ladders Knowledge, skills, and abilities (competencies) needed for each Recruiting strategies
Approach to meet Board subcommittee structure requirements	<ul style="list-style-type: none"> The alignment of current Board subcommittees to the new CalPERS structure 	<ul style="list-style-type: none"> Recommendations for Board liaisons and timing of any changes based on current subcommittees, new structure, each current executive's leadership alignment, knowledge, and tenure

7. Appendix: Leading Practices

The ETM team researched various external leading practices as an input for the development of the Guiding Principles. They provide an outside perspective on Organization Development. The leading practices are for financial institutions.

7.1. Leading Practices for Financial Institutions

Mini-case study:

- A property and casualty insurer that had higher costs than competitors, multiple IT systems, less than 30% of its application processing and underwriting automated, and record slow processing for applications and claims made significant changes to improve costs and customer service. The insurer:
 - Consolidated – Combined lower-value underwriting activities in 2 large service centers
 - Centralized – Converted 20 full-service Branches into thin Branches by centralizing activities such as renewal preparation, small-account underwriting, processing of changes, which freed-up 20% of underwriter's time to focus on relationships and service responsiveness
 - Automated – 1) Used rule-based expert systems to increase percentage of applications underwritten automatically; 2) Made available on-line to customers and agents common service tasks (such as billing inquiries or changes to policies), which reduced transaction costs by 20-30%
 - Improved - Assessed, prioritized, and implemented key strategic business process improvements

Merrill Lynch:

- Plans to increase its straight-through processing to 99% for high-volume transactions
- Has a goal to have critical business applications available 99.99% of the time
- Is best in class for e-channels
- Has combined operations and IT within a single unit in order to carry on the processes of the business and develop new services. They believe you cannot start with one and then graft the other; you must integrate technology and operations

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- Has a world class research library that combines research data that is useful to its bankers, traders, and salespeople. They employ excellent search technology
- Plans to spend 70% of its budget in new product development and only 30% in maintenance
- Creates strategic opportunities by leveraging external partnerships
- Uses external means to track customer satisfaction (surveys and reports that measure timeliness and accuracy) and benchmarks against their competitors

E*Trade:

- Provides transparency which allows customers to look at/compare different options (including options that do not come from E*Trade) and make an informed decision

Innovation:

- 67% of respondents to the “2007 Innovation in Financial Services: A McKinsey Global Survey” say innovation has been extremely or very important to the ability of their company to meet revenue targets, both long and short term
 - Distribution of activities and investments v. how important over the next 3 years

▪ Product	34% v. 40%
▪ Process	24% v. 21%
▪ Distribution	14% v. 14%
▪ Business Model	14% v. 24%
 - Getting organized/Facilitating innovation

Mechanisms currently in place in your organization	
▪ An innovation council or committee	32%
▪ Funds dedicated for innovation	26%
▪ Central R&D innovation center	26%
▪ No mechanisms	40%
- Ways to save time and staff expense *and* improve customer service:
 - Self-service
 - User-directed services where most routine transactions are done without any, or very limited, human interaction
 - 60 – 85% of flyers use auto check-ins

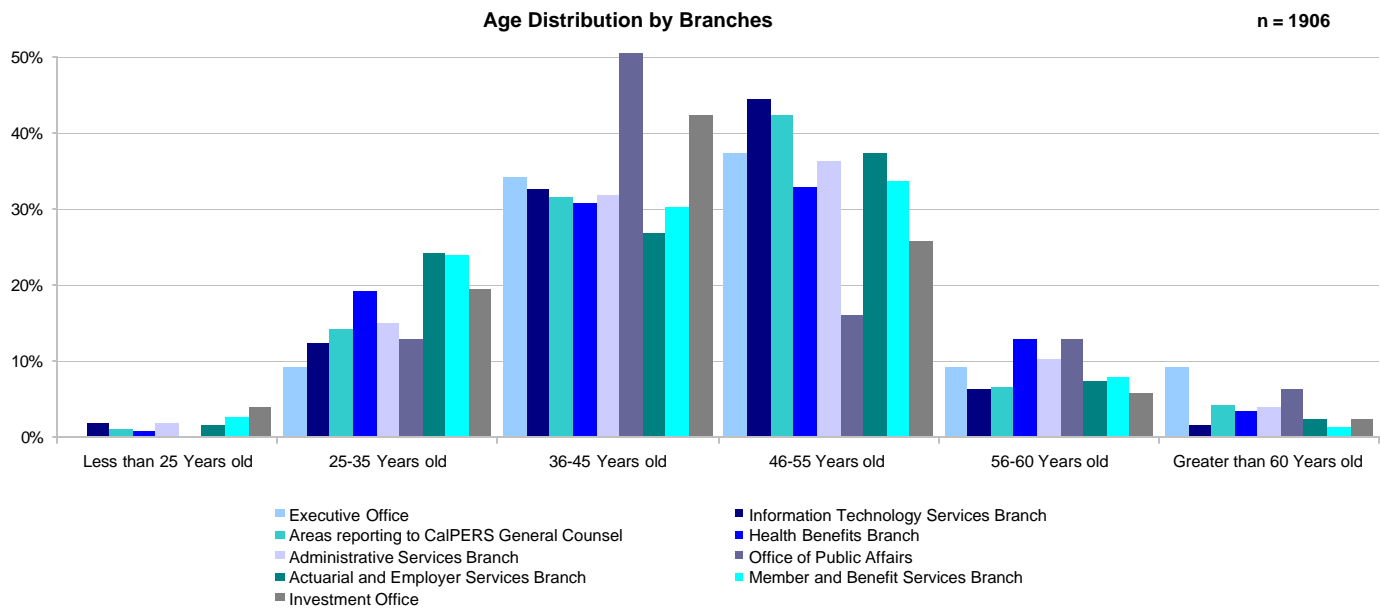
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- Self-service kiosks that also provide a low-cost expansion option
 - Hard benefits include expansion accomplished with 23% less staff
 - Bigger benefit is empowering customers and expanded hours and customer access to more capabilities
- Other typical levers used to support rising business volume without allowing costs to grow proportionately:
 - Centralized shared services
 - Automated transactions
 - A global workforce
- Only about 15% of “e-government’s” benefits stem from technology solutions; the rest come from streamlining the delivery of services
- Ways to instill a cross-functional, empowered work environment, while delivering a package of integrated services
 - Separation of processes into those:
 - Initiated by the customer
 - Necessary to support a product
 - Supporting the institution’s needs
 - Minimal gap between IT and operations due to an integrated view of processes that runs from customer contacts back through operations
- More organizations are shifting from discrete performance enhancing or strict cost reduction efforts (such as off-shoring and lean techniques) to operating model redesign and end-to-end processes change
 - Central themes for redesigning an operating model
 - Increased transparency
 - Simpler value chain
 - Accountability
 - Key performance metrics
 - Separate role with accountability/responsibility for innovation of new products and services

8. Appendix: Demographic Analysis

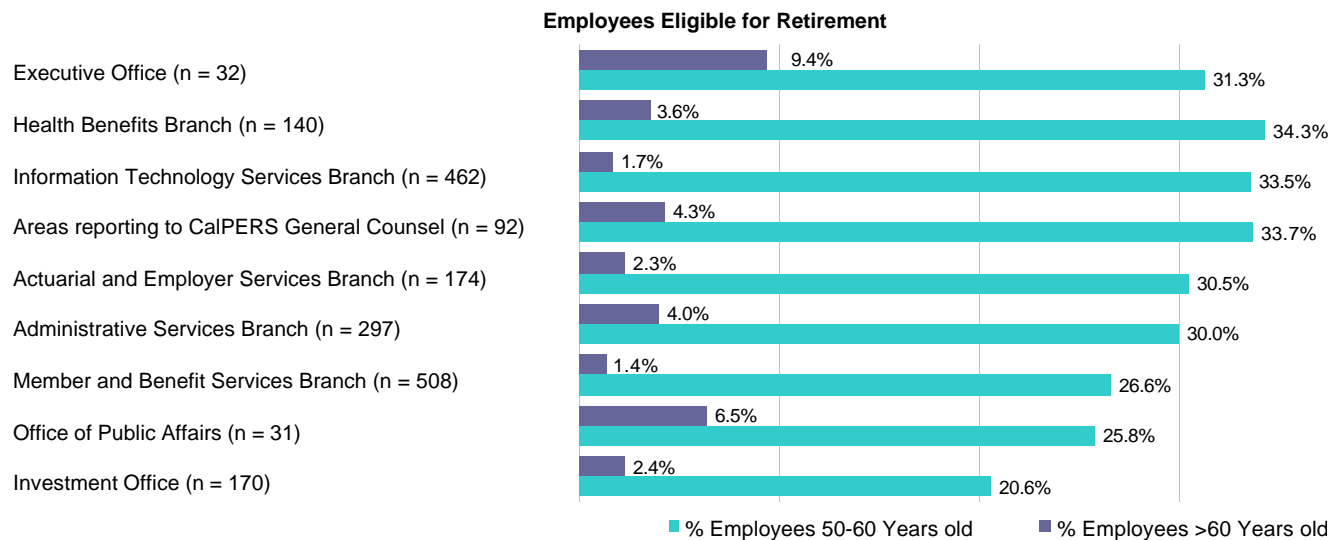
The ETM team conducted analysis that depicts the demographic make up of CalPERS' workforce and assessed the workforce needs at Branch levels.

The following chart shows the age distribution of the CalPERS' population at Branch level:



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The following chart shows the percent of staff currently eligible for retirement at the Branch level:



9. Appendix: Terminology and Definitions

9.1. PSR Terminology and Definitions

The terms and definitions referenced in this DED are contained in the PSR Glossary located at:

<http://psr.calpers.ca.gov/project-documents/procurement-phase-archive/rfp/miscellaneous/Project%20Glossary.pdf/view?searchterm=glossary>

- N/A

9.2. ETM Terminology and Definitions

The terms and definitions referenced in this DED are contained in the ETM Glossary located at:

[file:///F:/Data/Enterprise Transition Management/Reference Documents/ETM Glossary/ETM Glossary_final_12-6-07 v.1.doc](file:///F:/Data/Enterprise%20Transition%20Management/Reference%20Documents/ETM%20Glossary/ETM%20Glossary_final_12-6-07_v.1.doc)

The following terms and definitions are new and will be added to the ETM Glossary.

- **Analysis** – Collecting and sorting through data, making observations and identifying key elements.
- **Branch** – Made up of several divisions which support a major organizational function.
- **Concept of Operations (or ConOps)** – A ConOps is a user-oriented document that describes system characteristics for a proposed system from the users' viewpoint. The ConOps document is used to communicate the overall quantitative and qualitative system characteristics to the user, buyer, developer and other organizational elements (e.g. training, facilities, staffing and maintenance). It is used to describe the user organization(s), mission(s) and organizational objectives from an integrated systems point of view.
- **Current State Assessment (or CSA)** – A report developed by the ETM team which describes the existing CalPERS organizational environment (through January 2007) and examines divisional staff readiness for the anticipated changes associated with PSR.
- **Guiding Principle** – A statement that articulates shared organizational values, underlies strategic vision and mission, and serves as a basis for an integrated decision. (www.ichnet.org/glossary)

A fundamental truth or method of operation that links, directs, and shows the way. (CNA, 1998)

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- **Governance Model** – A structure of systematic interactions among key stakeholders that produces sound decisions. The key elements are: an established process in which decisions are made and executed effectively, clear distinctions for responsibility and authority of specific key decisions and their execution, established methods to resolve impasses.
- **Hybrid Structure** – Structure that often relies on shared services to leverage economies of scale while leaving customer-facing and entrepreneurial functions decentralized.
- **Organization Design (or OD)** – The work done to ensure that CalPERS has the best organization structure to optimize the new capabilities of PSR and to best meet the business needs of the future. The work includes helping CalPERS:
 - Evaluate various options in unit and organization structures, jobs or functional area design, reporting relationships, governance, etc.,
 - Define the associated new roles and classifications,
 - Develop a transition plan to facilitate the implementation of the new organization structure

This is not a reference to a corporation or company.

- **Organization Levels** – Organization Levels measures how many distinct reporting layers are within CalPERS. This metric measures the complexity of CalPERS' reporting structure.
- **Operating Model** – An Operating Model is used to understand the organizational structure for the enterprise. It provides a way to examine the business in terms of the key relationships between business functions, processes and structures that are required for the organization to fulfill its mission.
- **Organization Structure** – The organizational components, relationships, and hierarchy that determine where formal power and authority are located. This is what is typically shown on an organization chart. (Source: “Designing Dynamic Organizations”. Jay Galbraith, 2002)
- **Span of Control** – Span of Control measures the number of headcount staff supported by each supervisor. This metric provides insight into organizational structure and can help determine appropriate supervisor to employee ratios.